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SUBJECT: COORDINATOR FOR ASSISTANCE TRANSITION MEETS WITH
FINANCE MINISTER JABR

¶1. (SBU) Summary: On November 5, Coordinator for Assistance Transition Patricia Haslach, EMIN, Finatt, and Brigadier General Stephen Lanza met Minister of Finance Baqir Jabr Al Zubaidi to discuss follow up to the Dialogue on Economic Cooperation (DEC) and the U.S.-Iraq Business and Investment Conference as well as the discussions between the International Monetary Fund (IMF) and the Government of Iraq (GoI) on a Stand-By Arrangement (SBA). Haslach also asked about talks with the World Bank on Development Policy Loans (DPLs); the 2010 GoI budget; the International Compact with Iraq (ICI); debt relief negotiations with China; the Iraq Financial Management Information System (IFMIS); exemption from customs duties for U.S. humanitarian assistance; and budgeting for employment of the Sons of Iraq. End summary.

Follow up to DEC and USIBIC

¶2. (U) At a November 5 meeting, Haslach thanked Minister Jabr for his participation and leadership of the Iraqi delegation at the DEC. She reported that all USG participants were pleased at the substantive engagement on issues. "It was a real dialogue," she said, and underscored the importance of following up with the Strategic Framework Agreement (SFA) working groups. Haslach handed the Minister a copy of Under Secretary Hormats' DEC letter to Jabr, stressing we were interested in the Minister's reaction to our proposed path ahead.

IMF Stand-By Arrangement and World Bank DPL Discussions

¶3. (SBU) Jabr described negotiations with the IMF on the SBA program as near completion. He had informed the IMF that the GOI agreed with a USD 73 per barrel threshold oil price, above which the GoI would not draw on the SBA. Contrary to earlier indications, Jabr stated that he did not require approval from the Prime Minister on the threshold oil price. The Minister recalled that the Fund had requested the budget be cut by USD 1.5 billion. This was not possible, he explained, as the budget already had been sent to the Council of Representatives (CoR), and the IMF has subsequently backed away from its request. He also noted that the size of the SBA had declined from USD 4.5 billion to 3.8 billion based on earlier discussions with the Fund. He noted that passing the 2010 budget and reaching agreement with the World Bank on the DPLs were the final issues that the GoI must resolve.

¶4. (SBU) Haslach asked about the World Bank's willingness to extend a DPL. Jabr stated that the Bank was willing to lend USD 500 million, but the GOI was hoping for more. He recounted the Prime Minister's visit with World Bank President Robert Zoellick in Washington at which Zoellick professed that the Bank was strapped for funds. Increased lending to the GOI would require an increase in the Bank's capital, a topic Zoellick suggested the PM take up with the Treasury Secretary. Jabr repeated earlier requests for bilateral U.S. budget support and for help making Iraq's case before the World Bank. Finatt noted that, at this point, it

appeared unlikely that the World Bank would extend a DPL over \$500 million. The World Bank will send a team to Baghdad in mid-November to work out the details of the DPL.

2010 Budget

15. (SBU) Jabr was pleased that the first reading of the draft 2010 budget has passed the CoR and noted that the atmosphere for passage of the budget was "favorable." Last week, he was summoned to the CoR Finance Committee expecting to discuss the 2010 budget but, was "grilled" for three hours on the 2009 budget instead. He said he will return to the CoR Q2009 budget instead. He said he will return to the CoR Finance Committee to discuss the 2010 budget soon.

International Compact with Iraq

16. (SBU) Regarding the ICI meeting on November 7, Jabr stated that the Prime Minister does not support the notion of a "compact," and would prefer a term that reflects the "new partnership." Haslach agreed and noted that the USG is prepared to work together with strong GOI leadership and with the international community on a new relationship between donors and the GOI. Jabr provided a copy of his ICI speech, which reviewed GOI accomplishments over the last year and a half.

Debt Negotiations with China

17. (SBU) Jabr reported that Dr. Azez Jaffar, his Special

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Advisor, was in China to finalize a debt reduction agreement. Azez indicated that the Chinese have demanded interest payments to cover the period since the debt reduction MOU was first signed in July 2007 and that the 20 percent in remaining debt should be repaid in 5 years. Jabr had instructed Azez not to agree since this was contrary to Paris Club rules, but still hoped the Chinese would finalize the deal. (Note: Subsequently, Post learned that the Chinese had agreed to a deal consistent with Paris Club terms. Azez initialed on behalf of the GOI, but the final agreement will be signed by the Finance Minister.)

IFMIS

18. (U) Haslach expressed understanding of past problems of the IFMIS database system but stressed that the USG wants to help the GOI fix it. Haslach proposed that a team from the IFMIS vendor, Freebalance, come to Baghdad to work on the system. Finatt noted that the visit of the Freebalance team should be arranged at a time when the General Director of the Budget Department could give them her undivided attention, probably after work on the 2010 budget is completed. The Minister agreed.

Customs Duties Exemption for Humanitarian Assistance

19. (SBU) Haslach recounted continuing problems with USG-funded goods being delayed in customs that should be accorded duty-free treatment. She asked the Minister to impress upon the Director General (DG) of Customs the need to conclude a memorandum of understanding (MOU) to exempt these goods from customs duties. She noted that the DG of Customs has not taken action since May when Prime Minister Maliki had instructed the MOF to exempt these goods from duties in accordance with the U.S.-Iraq Assistance Agreement. Jabr reported that he had pushed the DG of Customs on this issue the previous day. Finatt recalled the history of developments, with the Minister directing an MOU be crafted to implement the PM's directive on a shipment-by-shipment

basis, with the USG certifying shipments that should be accorded duty-free treatment. Haslach provided a copy of a draft MOU that would achieve this objective. (Note: The MOF is expected to sign the MOU this week. End note).

Sons of Iraq

¶10. (SBU) General Lanza noted that some Sons of Iraq had not been fully transitioned into ministries this year and emphasized the importance of budgeting for their employment. Jabr responded that he believed the 2010 budget provided sufficient funds for the Sons of Iraq. He recalled that the 2009 supplemental budget was to provide extra funds to the Ministry of Interior (MoI), if needed, to pay the Sons of Iraq this year. If the MoI needed extra funds this year, the Minister said he would advance them the necessary monies from the 2010 budget.

HILL